

1 RACHEL KREVANS (CA SBN 116421)
2 MATTHEW I. KREEGER (CA SBN 153793)
3 JASON A. CROTTY (CA SBN 196036)
4 MORRISON & FOERSTER LLP
5 425 Market Street
6 San Francisco, California 94105-2482
7 Telephone: 415.268.7000
8 Facsimile: 415.268.7522
9 RKrevans@mofo.com
10 MKreeger@mofo.com
11 JCrotty@mofo.com

12 Attorneys for Defendants
13 ECHOSTAR SATELLITE LLC AND
14 ECHOSTAR TECHNOLOGIES CORPORATION

15 UNITED STATES DISTRICT COURT
16
17 NORTHERN DISTRICT OF CALIFORNIA
18
19 SAN JOSE DIVISION

20 In re

21 ACACIA MEDIA TECHNOLOGIES
22 CORPORATION

Case No. 05-CV-1114 JW
MDL No. 1665

**MEMORANDUM OF POINTS AND
AUTHORITIES IN SUPPORT OF
MOTION RE EXCEPTIONAL CASE**

Date: TBD
Time: TBD
Courtroom: 8, 4th Floor
Judge: Hon. James Ware

TABLE OF CONTENTS

		Page
3	Table of Authorities.....	ii
4	I. Introduction	1
5	II. Background	1
6	A. Acacia and the Asserted Patents.....	1
7	B. The Sarnoff Report	2
8	C. The Central District Litigation	4
9	D. The Cable and Satellite Cases and the MDL Proceedings	6
10	E. Acacia's Objections to the Technical Advisor	9
11	F. Acacia Serially Offers Covenants Not to Sue	12
12	III. Applicable Law	14
13	IV. Argument.....	15
14	V. Conclusion.....	20

TABLE OF AUTHORITIES

		Page(s)
CASES		
1		
2		
3		
4	<i>Acacia Media Techs. Corp. v. New Destiny Internet Group, Inc.,</i>	
5	No. 02-CV-1040 (C.D. Cal. Sept. 23, 2003)	4
6	<i>Ass’n of Mexican-Am. Educators v. California,</i>	
7	231 F.3d 572 (9th Cir. 2000)	10, 11
8	<i>Beckman Instruments, Inc. v. LKB Produkter AB,</i>	
9	892 F.2d 1547 (Fed. Cir. 1989)	15
10	<i>Brasseler, U.S.A. I., L.P. v. Stryker Sales Corp.,</i>	
11	267 F.3d 1370 (Fed. Cir. 2001)	17
12	<i>Bristol-Myers Squibb Co. v. Rhone-Poulenc Rorer, Inc.,</i>	
13	326 F.3d 1226 (Fed. Cir. 2003)	17
14	<i>Cambridge Prods., Ltd. v. Penn Nutrients, Inc.,</i>	
15	962 F.2d 1048 (Fed. Cir. 1992)	14
16	<i>Cybor Corp. v. FAS Techs., Inc.,</i>	
17	138 F.3d 1448 (Fed. Cir. 1998)	14
18	<i>Digital Control, Inc. v. Charles Mach. Works,</i>	
19	437 F.3d 1309 (Fed. Cir. 2006)	17
20	<i>Dippin’ Dots, Inc. v. Mosey,</i>	
21	476 F.3d 1337 (Fed. Cir. 2007)	17
22	<i>Fed. Trade Comm’n v. Enforma Natural Prods., Inc.,</i>	
23	362 F.3d 1204 (9th Cir. 2004)	11, 12
24	<i>Fiers v. Revel,</i>	
25	984 F.2d 1164 (Fed. Cir. 1993)	3
26	<i>Hoffmann-La Roche, Inc. v. Invamed, Inc.,</i>	
27	213 F.3d 1359 (Fed. Cir. 2000)	15
28	<i>ICU Med., Inc. v. Alaris Med. Sys., Inc.,</i>	
	558 F.3d 1368 (Fed. Cir. 2009)	15
	<i>In re Acacia Media Techs. Corp. Patent Litig.,</i>	
	360 F. Supp. 2d 1377 (J.P.M.L. 2005)	7

1	<i>In re Acacia Media Techs. Corp. Patent Litig.,</i>	
2	Case No. 1665 (J.P.M.L. Nov. 11, 2004)	6
3	<i>Larson Mfg. Co. of S. Dakota, Inc. v. Aluminart Prods., Ltd.,</i>	
4	559 F.3d 1317 (Fed. Cir. 2009)	17
5	<i>Li Second Family Ltd. v. Toshiba Corp.,</i>	
6	231 F.3d 1373 (Fed. Cir. 2000)	17
7	<i>Multiform Desiccants, Inc. v. Medzam, Ltd.,</i>	
8	133 F.3d 1473 (Fed. Cir. 1998)	15
9	<i>Nilssen v. Osram Sylvania, Inc.,</i>	
10	528 F.3d 1352 (Fed. Cir. 2008)	14, 15, 18, 19
11	<i>Pharmacia Corp. v. Par Pharm., Inc.,</i>	
12	417 F.3d 1369 (Fed. Cir. 2005)	17
13	<i>Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.,</i>	
14	204 F.3d 1368 (Fed. Cir. 2000)	17
15	<i>Sensonics, Inc. v. Aerosonic Corp.,</i>	
16	81 F.3d 1566 (Fed. Cir. 1996)	14, 15
17	<i>Sun-Tek Indus., Inc. v. Kennedy Sky Lites, Inc.,</i>	
18	929 F.2d 676 (Fed. Cir. 1991)	14
19	<i>TechSearch, L.L.C. v. Intel Corp.,</i>	
20	286 F.3d 1360 (Fed. Cir. 2002)	10
21	<i>Wedgetail, Ltd. v. Huddleston Deluxe, Inc.,</i>	
22	576 F.3d 1302 (Fed. Cir. 2009)	15
23	STATUTES	
24	28 U.S.C. § 1407	6
25	35 U.S.C.	
26	§ 112	1, 4
27	§ 285	1, 14, 15, 20
28	37 C.F.R. § 1.56	4
	Fed. R. Civ. P. 54(d)(2)	1
	Fed. R. Evid. 706	9, 11
	OTHER AUTHORITIES	
	Civ. L.R. 54	1, 13

I. INTRODUCTION

Pursuant to the Court's order dated October 23, 2009, EchoStar submits this motion for attorneys fees. *See* Docket No. 356; Fed. R. Civ. P. 54(d)(2); Civ. L.R. 54-6. Under 35 U.S.C. § 285, the Court may award reasonable attorneys fees to a prevailing party in "exceptional cases."

This case has a long and complex history beginning in 2002, with Acacia's initial lawsuit regarding these patents. The litigation has included proceedings before the Judicial Panel on Multidistrict Litigation, numerous *Markman* proceedings and motions to reconsider, a series of covenants not to sue by Acacia, Acacia's unfounded objections to the Court's use of a technical advisor, countless changes in Acacia's positions on numerous substantive and procedural issues, and, finally, the Court order granting summary judgment against Acacia on all of the asserted claims. Acacia's litigation tactics have maximized the cost and duration of this litigation to the Court and the parties, and despite numerous motions by Acacia, the result was a finding that all of the claims were invalid as indefinite. Acacia's claims were declared invalid *even before the Court considered non-infringement, prior art invalidity, invalidity under 35 U.S.C. § 112, ¶ 1, and unenforceability*. And even before Acacia filed suit against many of the defendants, the Court had already made a finding that key elements of the claims were invalid as indefinite. As defendants' motions for summary judgment on written description and enablement demonstrate, the claims are invalid on many other grounds as well.

Acacia has imposed huge costs on virtually the entire cable and satellite television industry and its case did not even progress past claim construction. In light of these facts, the clear weaknesses of the asserted patents, and Acacia's litigation tactics, this is an "exceptional case" within the meaning of 35 U.S.C. § 285, and EchoStar, as a prevailing party, is entitled to its attorneys fees.

II. BACKGROUND

A. Acacia and the Asserted Patents

Acacia is "engaged in the business of acquiring, licensing and enforcing patents. The subsidiaries of Acacia Research buy patents as well as represent patent owners on contingency

basis to generate revenue from licensing and enforcement.”¹ Within Acacia’s patent portfolio are the five patents it asserted against the many present and past defendants in this suit: U.S. Patent Nos. 5,132,992 (’992 patent), 5,253,275 (’275 patent), 5,550,863 (’863 patent), 6,002,720 (’720 patent), and 6,144,702 (’702 patent). According to Acacia, the patents in suit — which it styles “DMT” — can be characterized as follows:²

This patented technology generally relates to the transmission and receipt of digital audio and/or audio video content via a variety of means including the internet, cable, satellite, and local area networks. Elements of the DMT® transmission process include a source material library, identification encoding process, format conversion, sequence encoding, compressed data storage, and transmission. Elements of the DMT® receiving process include a transceiver, format conversion, storage, decompression, and playback.

Acacia asserts that these patents are extremely broad, covering streaming content over the internet and satellite and cable transmission of television broadcasts.³

B. The Sarnoff Report

The application that ultimately issued as the ’992 patent was filed on January 7, 1991. On April 20, 1992, the David Sarnoff Research Center provided a “summary technical evaluation” of the “patent document” entitled “Audio and Video Transmission and Receiving System.” *See*

¹ *See* Ex. 1 (<http://acaciatechnologies.com/>). Unless otherwise noted, all Exhibits referenced herein are attached to the Declaration of Jason A. Crotty in Support of Motion Re Exceptional Case.

² *See* Ex. 2 (<http://acaciatechnologies.com/patentportfolio.htm#Digi>).

³ The Electronic Frontier Foundation (“EFF”) has a “Patent Busting Project” to protect innovation and free expression. *See* Ex. 3 (<http://w2.eff.org/patent/wp.php>). EFF states: “Every year numerous illegitimate patent applications make their way through the United States patent examination process without adequate review. The problem is particularly acute in the software and Internet fields where the history of prior inventions (often called “prior art”) is widely distributed and poorly documented.” As part of this project, EFF identified a number of what it considered the “worst offenders.” Acacia’s ’992 patent was included in this list. *See* Ex. 4 (<http://w2.eff.org/patent/wanted/patent.php?p=acacia>) (“Laughably broad patent would cover everything from online distribution of home movies to scanned documents and MP3s.”). Although the views of EFF are not binding on courts or the PTO, these views are representative of the patents-in-suit.

1 Ex. 5. The report was provided to Lee Browne of Greenwich Technologies (Acacia's predecessor
2 in the ownership of the patents in suit) pursuant to an agreement dated March 6, 1992.

3 Mr. Browne is one of the named inventors on the patents in suit. *See id.* The "summary" of the
4 report stated:

5 The patent document supplied by Greenwich Technologies outlines
6 a generic set of technologies necessary for a video-on-demand
7 system. The general principles of the system described in the
8 patent are believed to be technically correct, though significant
9 additional design detail will have to be developed before a proof-of-
10 concept prototype can be implemented. Based on our review of
11 published material (see references) in the area of video-on-demand,
12 interactive multimedia, etc., we do not consider the overall system
13 architecture to be novel in a scientific/technological sense.

14 *Id.* at 2. In other words, the technical experts hired by the inventors reported that the technology
15 contained in the document was *not* novel and that significant additional design detail would be
16 required even before a "proof of concept" could be implemented. Simply put, the technical
17 review determined that the patent document did not contain anything new, though it did contain
18 some ideas for further research.⁴ In fact, the disclosure was far from even a proof of concept. At
19 a minimum, the Sarnoff report raises issues regarding anticipation, obviousness, enablement, and
20 written description.

21 The Sarnoff report included a list of twenty-eight references that disclosed various aspects
22 of the system outlined in the application, and it included copies of those references. Of the
23 twenty-eight references cited in the Sarnoff report, twenty-two were published before the filing
24 date of the '992 patent application. Among the list of references in the Sarnoff Report was an
25 article identified as "GE 91" by A.D. Gelman, *et al.*, titled "A Store-and-Forward Architecture for
26 Video-On-Demand Service" ("the Gelman article"). According to the Sarnoff report, the Gelman
27 article discloses various aspects of the video-on-demand system outlined in the '992 patent

28 ⁴ Of course, the policy behind the patent laws is to "promote disclosure of inventions, not
of research plans." *Fiers v. Revel*, 984 F.2d 1164, 1169 (Fed. Cir. 1993).

1 application. The information provided in the Sarnoff report is material, as defined by 37 C.F.R.
2 § 1.56.

3 Despite the written concerns of its own technical consultants and the receipt of the report
4 by a named inventor during the prosecution of the '992 patent, the Sarnoff report was *not*
5 disclosed to the United States Patent & Trademark Office (PTO). Nor were any of the references
6 cited therein disclosed to the PTO during prosecution of the '992 patent. Indeed, neither the
7 Sarnoff report nor its cited references were disclosed to the PTO until after the filing of a
8 continuation application in 2000, approximately eight years after the date the report was provided
9 to a named inventor. By that time, all of the patents involved in this lawsuit had issued. Thus,
10 although the applicants recognized the clear relevance of the report and the cited references, by
11 the time they were finally submitted to the PTO, it was too late for all of the patents in this case.

12 **C. The Central District Litigation**

13 This case began in November 2002, when Acacia filed a number of separate suits in the
14 Central District of California, alleging patent infringement by various internet-based companies
15 (the "Round One" defendants). By September 2003, Acacia had filed *forty-seven* separate actions,
16 some of which are no longer pending. *See, e.g.,* Ex. 6 (Acacia's September Monthly Status
17 Report, *Acacia Media Techs. Corp. v. New Destiny Internet Group, Inc.*, No. 02-CV-1040 (C.D.
18 Cal. Sept. 23, 2003)). Ultimately, at Acacia's request, the pending cases were consolidated for
19 pre-trial purposes. *See* Ex. 7 (Order, *New Destiny*, No.02-CV-1040 (C.D. Cal. Dec. 18, 2003)).

20 After extensive briefing and four days of hearings, the Court issued its (first) *Markman*
21 Order on July 12, 2004, construing terms in the then-asserted claims of the '992 and '702 patents
22 and identifying two terms, "identification encoding means" and "sequence encoder" as "arguably
23 indefinite." Ex. 8 (Markman Order, *New Destiny*, No. 02-CV-1040 (C.D. Cal. Jul. 12, 2004)
24 (hereinafter "*Markman I* Order")). In this Order, the Court invited Acacia to move for an
25 evidentiary hearing as to whether one of skill in the art could identify a corresponding structure
26 for "identification encoding means" and invited the defendants to move for summary judgment of
27 invalidity under 35 U.S.C. § 112, ¶¶ 1-2. *Id.* at 21. Acacia repeatedly declined to seek an
28 evidentiary hearing, but defendants filed a motion for summary judgment. *See* Ex. 9 (*New*

1 *Destiny*, No. 02-CV-1040 (C.D. Cal. Sept. 20, 2004)). This motion was fully briefed by the
2 parties.

3 However, in response to defendants' summary judgment motion, Acacia, without leave of
4 Court or notice to defendants, submitted expert declarations asserting (albeit conclusorily) that the
5 claim terms were not indefinite. *See, e.g.*, Exs. 10, 11 (Alexander and Weiss Declarations, *New*
6 *Destiny*, No. 02-CV-1040 (C.D. Cal. Oct. 20, 2004)). Remarkably, Acacia argued that
7 *defendants'* lack of expert testimony on invalidity was fatal to the summary judgment motion.
8 *See, e.g.*, Ex. 12 (Acacia Opp. at 8-9, *New Destiny*, No. 02-CV-1040 (C.D. Cal. Oct. 20, 2004)).
9 Acacia further argued that, in view of its new expert declarations, it would be "reversible error"
10 for the Court not to revisit its *Markman* I Order. *Id.* at 19-24. In addition, because Acacia had
11 "withdrawn" claims 1-18 of the '992 patent from the suit after the Court issued its *Markman* I
12 Order, Acacia argued that a judgment of invalidity for indefiniteness of these claims would be an
13 impermissible "advisory opinion." *Id.* at 17-18. In response, Defendants argued that Acacia's
14 withdrawal was a brazen attempt to avoid an impending judgment of invalidity as to these claims,
15 that Acacia knew these claims to be invalid after the *Markman* I Order but nonetheless forced
16 defendants to expend the resources to file a summary judgment motion, and that Acacia's sudden
17 and unauthorized submission of expert declarations on claim construction post-*Markman* was an
18 attempt to "thwart the entire process." Ex. 13 (New Destiny Reply at 22, *New Destiny*, No. 02-
19 CV-1040 (C.D. Cal. Nov. 18, 2004)). Accordingly, Defendants sought attorneys fees for Acacia's
20 willful violation of the Court's orders and its vexatious and oppressive conduct with regard to the
21 litigation of claims 1-18 of the '992 patent. *Id.* at 18-23.

22 In the meantime, Acacia had filed yet more lawsuits. Because of the pending motion
23 before the MDL panel, discussed below, the Court declined to rule on defendants' motion for
24 summary judgment. Ex. 14 (Order, *New Destiny*, No. 02-CV-1040 (C.D. Cal. Dec. 1, 2004)).
25 Although the "sequence encoder" and "identification encoder"-based arguments for invalidity for
26 indefiniteness and/or lack of enablement, at least as to the '702 patent, were fully in place at this
27 time, Acacia's procedural machinations would mean that final judgment of invalidity of the
28 claims that include the terms "sequence encoder" and "identification encoder" would have to wait

almost another five years. These years have essentially been a waste of time, money, and effort, as they effectively confirmed the ruling handed down in 2004.

D. The Cable and Satellite Cases and the MDL Proceedings

When the Court consolidated the Round One defendants' cases, the Court directed Acacia to file any further actions on the patents in suit in the Central District of California. *See* Ex. 7 (Order, *New Destiny*, No. 02-CV-1040 (C.D. Cal. Dec. 18, 2003)).⁵ Despite this Order, and without seeking approval from the Court, Acacia filed several new actions in district courts across the country against various satellite and cable companies ("Round Two" defendants), including EchoStar. *See* N.D. Cal. Case Nos. 04-CV-3789 (filed Sept. 9, 2004), 04-CV-02308 (filed June 14, 2004); D. Az. Case No. 04-CV-1891 (filed Sept. 10, 2004); D. Minn. Case No. 04-CV-4069 (filed Sept. 10, 2004); N.D. Ohio Case No. 04-CV-1847 (filed Sept. 10, 2004). The new cases included the '992 and '702 patents that had been asserted in the prior cases, plus several additional related patents.

In July 2005, with all these cases pending in various districts, Acacia stated that it did *not* intend to move that the existing cases be consolidated for pretrial proceedings under the multidistrict litigation provisions of 28 U.S.C. § 1407.⁶ Yet four months later, in November 2004, Acacia reversed course and did exactly that. *See* Ex. 17 (Acacia's Motion to Transfer, *In re Acacia Media Techs. Corp. Patent Litig.*, Case No. 1665 (J.P.M.L. Nov. 11, 2004). On February 24, 2005, the Judicial Panel on Multidistrict Litigation ordered the pending Round One and Round

⁵ *See id.* at ¶ 7 ("Plaintiff shall file any case involving the '992 patent or a patent which is a continuation or divisional of the '992 patent in the Central District of California, Southern Division. Plaintiff shall file a notice of related case with this Court in any action that involves U.S. Patent Nos. '702, '992 or other patents held by Plaintiff filed outside of California."). Acacia later attempted to explain that it did not believe the order required it to file all new cases in the Central District. *See* Ex. 15 (Notice of Filing of Related Case – C04-02308 FMS – in the Northern District of California at 1, *New Destiny*, No. 02-1040 (N.D. Cal. June 15, 2004).

⁶ *See* Ex. 16 (Notice of Pendency of Other Actions at 2-3, *Comcast*, No. 04-2308 (N.D. Cal. Jul. 22, 2004) ("Pursuant to Local Rule 3-13(3)(B), Acacia does not believe that transfer of this case to the Central District should be effected pursuant to 28 U.S.C. § 1407. Coordination in some form might avoid conflicts, conserve resources, or promote an efficient determination of this action. Plaintiff Acacia has no present intention to file a motion to transfer or to coordinate.").

1 Two actions centralized in this Court for coordinated or consolidated pretrial proceedings. *In re*
2 *Acacia Media Techs. Corp. Patent Litig.*, 360 F. Supp. 2d 1377 (J.P.M.L. 2005).

3 After consolidation in this Court and in response to the Court's invitation to file motions
4 for reconsideration of its *Markman* I ruling, *see* Dkt. 22, the parties (Acacia and the Rounds One
5 and Two defendants) submitted extensive briefing, and the Court held a two-day hearing, on
6 September 8-9, 2005. On December 7, 2005, the Court issued its second *Markman* order
7 (hereinafter "*Markman* II Order"), which reaffirmed its *Markman* I definitions of seven terms in
8 the '992 and '702 claims, and determined unequivocally that "sequence encoder" and
9 "identification encoder" were indefinite. Dkt. 119. By extension, the Court concluded its
10 determination of indefiniteness rendered at least claims 1, 7, 27, and 32 of the '702 patent invalid.
11 *Id.*

12 Meanwhile, Acacia had sued yet more defendants in yet more courts. *See* S.D.N.Y. Case
13 No. 05-CV-4148 (filed Apr. 16, 2005); E.D.N.Y. Case No. 05-CV-2036 (filed Apr. 26, 2005). On
14 Acacia's motion, and over opposition from the defendants involved, the MDL panel ultimately
15 transferred the two cases filed in federal district courts in New York to this Court for inclusion in
16 the consolidated pre-trial proceedings. *See* Transfer Order, *In re Acacia Media Techs. Corp.*
17 *Patent Litig.*, Case No. 1665 (J.P.M.L. Oct. 20, 2005) (filed as Hymas Decl. Ex. E, Dkt. 250-3).

18 This Court ultimately issued four more *Markman* orders, reflecting both the opportunity it
19 afforded the Round Three defendants to revisit the earlier constructions and the number of claims
20 at issue in the by now five patents-in-suit. Throughout this process, Acacia repeatedly changed its
21 positions, thus adding to the length and complexity of the briefing. In other words, Acacia
22 utilized the opportunity to participate that the Court provided to the *new parties* that had just been
23 added to the litigation to revamp its own case and serially present the Court its second and third
24 tier arguments.

25 Perhaps the most striking example of this behavior was with respect to the term "sequence
26 encoder," the indefiniteness of which is key to the invalidity rulings. Although it is not unheard of
27 for parties' claim constructions to evolve over the course of litigation, Acacia's flip-flopping
28 appears to have been designed to evade the Court's *Markman* orders and further add to the cost

1 and complexity of the case. During the *Markman* I process, Acacia argued that even though the
 2 '702 specification did not use the phrase "sequence encoder," it should be "construed consistent
 3 with the scope of the invention disclosed in the '702 patent specification as a 'time encoder, *i.e.*, a
 4 device or software which places blocks of converted formatted information into a sequence or
 5 group of addressable data blocks by assigning relative time markers to data prior to subsequent
 6 compression.'" ⁷ Ex. 18 (Acacia's claim construction Br. at 24, *New Destiny*, No. 02-CV-1040
 7 (C.D. Cal. May 7, 2004)). But because this definition of "sequence encoder" would effectively
 8 mean that claims 1 and 7 of the '702 patent had the same scope, Acacia argued in a post-hearing
 9 brief that the doctrine of claim differentiation is a "guide" and not a rigid rule of claim
 10 construction. Moreover, because the '702 specification disclosed only a "time encoder,"
 11 according to Acacia the need for consistency with the specification "takes priority over claim
 12 differentiation. Thus, similarity with claim 7 must be tolerated." Ex. 19 (Acacia Br. at 28, *New*
 13 *Destiny*, No. 02-CV-1040 (C.D. Cal. Jun. 14, 2004)). In an about-face, in its *Markman* II Opening
 14 Brief, Acacia argued that "[i]f the 'sequence encoder' of claim 7 is understood to be a time
 15 encoder with the additional function of transforming digital data blocks into a group of
 16 addressable data blocks, as indicated by the Court in its *Markman* Order, then, pursuant to the
 17 doctrine of claim differentiation, the sequence encoder of claim 1 must be broader, *i.e.*, a time
 18 encoder that is not limited to this function." Dkt. 59 at 19. To this end, Acacia sought *separate*
 19 definitions for "sequence encoder" in '702 claims 1, 17, 18, and 32 ("a time encoder") than in
 20 claims 7 and 33 ("a time encoder that transforms digital data blocks into a group of addressable
 21 data blocks"). *Id.* at 20. But at the *Markman* II hearing, Acacia switched positions yet again and
 22 abandoned this "group"-based distinction between claims 1 and 7 after admissions by Acacia's
 23 expert Mr. Weiss on cross-examination. *See* Dkt. 102 at 2 (citing *Markman* hearing Tr. at 233).

25
 26 ⁷ Of course, EchoStar disagrees with Acacia on this point — "sequence encoder" is a term
 27 that lacks meaning in the art and is not used in the specification. Acacia's position that "sequence
 28 encoder" is a "time encoder" is unsupportable. *See, e.g.*, Dkt. 77 at 6-7; Dkt. 102 at 2-6. The
 Court's repeated conclusions that "sequence encoder" is indefinite are correct.

1 Acacia's claim construction flip-flops were not confined to "sequence encoder." As
2 explained in Round One and Two Defendants' Supplemental Claim Construction Brief on the
3 '992 and '275 Patents (Dkt. 191), Acacia changed its position on "receiving system" a number of
4 times, first arguing that "receiving system" meant the same thing in the '992 and '275 patents,
5 then arguing that they had different meanings; first asserting that the related term "reception
6 system" in claims 2 and 5 of the '275 patent did *not* need to be located at the head end of the cable
7 television system, then at the *Markman* hearing, stipulating that it did. *See* Dkt. 191 at 2-3 (setting
8 out changes). And Acacia proposed no fewer than *four* significantly different constructions for
9 the term "storing," which is used in claims 1 and 41 of the '992 patent. *See* Dkt. 249 at 1-6
10 (setting out changes).

11 **E. Acacia's Objections to the Technical Advisor**

12 Because of the complexity of the case, the Court appointed a technical advisor to assist the
13 Court on technical matters. Mr. Schulz was initially appointed in the litigation in the Central
14 District of California on April 7, 2004. *See* Ex. 20 (Order, *New Destiny*, No. 02-CV-1040 (C.D.
15 Cal. Apr. 7, 2004)). All of the parties to those cases — including Acacia — *stipulated* to the
16 terms of the appointment. *See* Dkt. 21. As the Court later noted in a June 21, 2005 Order, the
17 parties and the Court all understood that Mr. Schulz would be a confidential advisor to the Court.
18 *See* Dkt. 21. On July 12, 2004, the Court issued its *Markman* I Order in those cases. *See* Ex. 8
19 (Markman Order, *New Destiny*, 02-CV-1040 (C.D. Cal. Jul. 12, 2004)). That order did not adopt
20 all of the constructions proposed by Acacia. *Id.* Only after the Court declined to adopt all of its
21 proposed constructions did Acacia supposedly realize that the order appointing the technical
22 advisor to which Acacia had previously stipulated was "ambiguous" and needed "clarification."

23 Acacia's objection to the propriety of Mr. Schulz's appointment was filed on February 18,
24 2005, more than nine months after the initial appointment. *See* Ex. 21 (Acacia Br., *New Destiny*,
25 No. 02-CV-1040 (C.D. Cal. Feb. 18, 2005)). Acacia argued that a reference in the order to
26 Federal Rule of Evidence 706 required that Mr. Schulz be deposed and that his previously agreed-
27 upon role be "clarif[ied]." *Id.* Acacia asserted that Mr. Schulz must have provided "evidence"
28 beyond his proper role as a technical consultant because certain constructions adopted by the

1 Court had not been proposed by the parties in exactly the language adopted by the Court — an
 2 astounding suggestion that the Court was not capable of independent reasoning. Acacia also
 3 contended that Mr. Shultz’s invoices indicated that Mr. Schulz provided “evidence” to the Court.
 4 *See id.* at 1-2. In other words, Acacia argued that the Court had inappropriately used the technical
 5 advisor. The motion was fully briefed but was continued pending Acacia’s MDL motion. During
 6 the pendency of the motion, the Court suspended its consultation with Mr. Schulz.

7 After the MDL proceedings were complete, the Court proposed procedural protections
 8 consistent with Ninth Circuit law and invited the parties to object to the proposed appointment,
 9 with such objections to be addressed to the assigned Magistrate Judge for findings and
 10 recommendations. *See* Dkt. 21. Of course, technical advisors are entirely unremarkable in
 11 complex patent litigation.⁸ The only party to object to the proposed appointment was Acacia,
 12 which stated that it believed the Court had improperly used the technical advisor. *See* Dkts. 28,
 13 48.⁹ Acacia stated that the order of appointment “appears to have been made to prevent Mr.
 14 Schulz from ever being deposed,” as if that were unusual or improper. Dkt. 28 at 1. Acacia
 15 insultingly speculated that because the Court adopted constructions that were not identical to those
 16 proposed by a party, the Court must have improperly used the technical advisor. *See id.* at 11

17
 18 ⁸ *See, e.g., TechSearch, L.L.C. v. Intel Corp.*, 286 F.3d 1360, 1377 (Fed. Cir. 2002)
 19 (internal citations omitted):

20 A technical advisor is helpful in assisting the court in understanding
 21 the scientific and technical evidence it must consider. Such evidence
 22 in a patent case includes expert testimony, scientific articles and texts,
 23 and patents, upon which the court must rely in understanding the
 24 technology so that it can interpret the patent claims and determine
 25 whether to grant motions for summary judgment of validity, invalidity,
 26 infringement or noninfringement, and to assist the court in articulating
 27 appropriate jury instructions. In this case, the court specifically noted
 28 that evaluation of the prior art required it to consider and understand
 complex technical concepts beyond normal technical and scientific
 facts regularly addressed by the district court.

⁹ Notably, in the absence of evidence to the contrary, the Ninth Circuit assumes that
 district courts properly use technical consultants. *See Ass’n of Mexican-Am. Educators v.*
California, 231 F.3d 572, 591 (9th Cir. 2000).

1 (“There is little doubt that Mr. Schulz has already provided opinion evidence to the Court in this
 2 case.”). Acacia thus requested that the order of appointment be rewritten under Federal Rule of
 3 Evidence 706, apparently so Acacia could police the Court’s compliance with Acacia’s view of
 4 the law.

5 However, the Court’s order of appointment, as well as its prior use of the technical
 6 advisor, was fully consistent with Ninth Circuit law. *See* Dkts. 38, 40. The order of appointment
 7 contained all of the procedural protections that had been suggested in Ninth Circuit case law. *See*
 8 *Ass’n of Mexican-Am. Educators v. California*, 231 F.3d 572, 590 (9th Cir. 2000) (*en banc*); *Fed.*
 9 *Trade Comm’n v. Enforma Natural Prods., Inc.*, 362 F.3d 1204 (9th Cir. 2004). Acacia’s
 10 objections did not address the actual requirements of Ninth Circuit law. *See* Dkt. 40 at 7-9.
 11 Indeed, the processes employed by the Court in this case exemplify the procedural safeguards that
 12 ensure the parties have an opportunity to participate in the appointment of the advisor and define
 13 the role of the technical advisor before any substantive activity in the case. *See id.* at 6-9.¹⁰

14 During prosecution of the patents in suit, Acacia elected to pursue claims containing terms
 15 that had no meaning to those of skill in the art and were not used in the specification, a strategy
 16 that plainly risked indefiniteness. When the Court first concluded, albeit tentatively, that the
 17 claims were indefinite, Acacia did not stop to reflect on the wisdom of obtaining and later
 18 asserting in litigation claims containing terms with no specific meaning or tie to the specification.
 19 Rather, it asserted that the Court had misused its technical advisor and proceeded to file two sets
 20 of papers on the issue, requiring defendants to brief more unnecessary issues. For all of the briefs
 21

22
 23 ¹⁰ Although the Ninth Circuit has not required strict adherence to any specific procedures
 24 regarding technical advisors, it has endorsed procedural safeguards initially set forth in dissent by
 25 Judge Tashima in *AMAE*. Those recommendations include: “(1) utilize a fair and open
 26 procedure for appointing a neutral technical advisor; (2) address any allegations of bias, partiality,
 27 or lack of qualification; (3) clearly define and limit the technical advisor’s duties; (4) make clear
 28 to the technical advisor that any advice he or she gives to the court cannot be based on any extra-
 record information; and (5) make explicit, either through an expert’s report or a record of *ex parte*
 communications, the nature and content of the technical advisor’s advice.” *FTC*, 362 F.3d at
 1215 (quoting *AMAE*, 231 F.3d at 611-14 (Tashima, J., dissenting)).

1 and arguments expended on this peripheral issue, the result was entirely predictable: the
 2 Magistrate Judge entered the order or appointment without major modification.¹¹

3 **F. Acacia Serially Offers Covenants Not to Sue**

4 Meanwhile, Acacia's case was crumbling, prompting it to offer covenants not to sue on
 5 numerous claims. Acacia originally asserted 89 claims against the various defendants: claims 1-
 6 24, 41-49, and 51-53 of the '992 patent; claims 14-19 of the '863 patent; claims 1-42 of the '702
 7 patent; claims 4, 6-8, 11 of the '720 patent, and claims 2 and 5 of the '275 patent. Dkt. 350 at 2.
 8 Acacia voluntarily withdrew claims 1-18 of the '992 patent on August 6, 2004; and on December
 9 19, 2007, pursuant to stipulation of the parties, Acacia withdrew claims 23-24, 47-49, and 51-53
 10 of the '992 patent. *Id.* at 3 n.7. On June 13, 2008, Acacia provided defendants with a covenant
 11 not to sue on claims 19-24, 42-44, 47-49, and 51-53 of the '992 patent, claims 2 and 5 of the '275
 12 patent, claims 14-16 of the '863 patent, and claims 4 and 6-8 of the '720 patent. *See* Dkt. 352 at
 13 1-2. Thus, by the time the Court issued its Summary Judgment Order on September 25, 2009, the
 14 only remaining asserted claims were claims 41, 45, and 46 of the '992 patent, claims 17-19 of the
 15 '863 patent, claim 11 of the '720 patent, and claims 1-42 of the '702 patent. *See id.* at 2.

16 While fewer asserted claims is a good thing, Acacia's piecemeal approach to dropping
 17 claims appears to have been designed solely to prolong unwinnable fights as long as possible, and
 18 to avoid adverse judgments on claims the Court had already determined to be indefinite. Acacia's
 19 claim-dropping strategy was part of its attempt to block the Court's consideration of defendants'
 20 invalidity arguments, and to cherry-pick issues for appeal. Indeed, after *Markman I*, Acacia
 21 withdrew claims 1-18 of the '992 patent from consideration and on that basis asserted that this
 22 divested the Court of jurisdiction to decide issues of invalidity and infringement for these claims.
 23 *See* Ex. 12 (Acacia Br. at 17-18, *New Destiny*, No. 02-CV-1040 (C.D. Cal. Oct. 20, 2004)). But

24 ¹¹ Since Acacia's objections accused the Court of improper behavior, the Court evidently
 25 decided that the issue should be resolved by the assigned Magistrate Judge. The Court also stated
 26 that it would not be informed of the identity of any party that objected. *See* Dkt. 21 at 4. As the
 27 issue was resolved by the Magistrate Judge long ago and the case is now on appeal to the Federal
 28 Circuit, EchoStar believes these facts may properly be taken account now by the Court for the
 limited purpose of determining whether the case is exceptional.

1 as explained in the Round One defendants' reply brief in support of their summary judgment
2 motion, Acacia's decision to drop these claims *after* the Court issued its *Markman* I order
3 preliminarily finding the term "identification encoding means" indefinite was an act of
4 gamesmanship, and along with other of Acacia's actions, should have entitled the Round One
5 defendants to fees *at that time*, *i.e.*, in late 2004. *See* Ex. 13 (New Destiny Reply Br. at 17-18,
6 *New Destiny*, No. 02-CV-1040 (C.D. Cal. (Nov. 18, 2004) (citing *Markman* I Order). Of course,
7 thanks to Acacia's multiplicity of filings, the Round One Defendants' motion for summary
8 judgment was never adjudicated in light of the MDL proceedings. This would be the first of
9 several instances of claim-dropping by Acacia long after the claims were not viable, but not soon
10 enough to save defendants and, in some cases the Court, from additional time-consuming work.

11 As a testament to the weakness of Acacia's claims and its costly litigation strategy, on
12 January 20, 2006, Acacia moved for summary judgment against itself, and simultaneously sought
13 a Rule 54(b) certification to allow immediate appeal of certain limited issues to the Federal
14 Circuit, even though the MDL process was not yet complete at that time. *See* Dkt. 120. A Rule
15 54(b) certification would have undoubtedly further multiplied the litigation, given the overlapping
16 issues and close relationship of the asserted patents. *See* Dkt. 126. The Court denied Acacia's
17 motion, noting it was made prior to the completion of claim construction. *See* Dkt. 259.

18 Acacia made a second attempt in a motion filed June 17, 2008, again seeking summary
19 judgment against itself on limited grounds, insisting that the Court not consider any additional
20 issues. Dkt. 287. Even though the parties had agreed to a briefing schedule setting a due-date for
21 summary judgment motions of July 11, 2008, *see* Dkt. 304 at 3, Acacia filed the motion against
22 itself in advance of this date, on June 17, 2008, and attempted without leave of court to set its own
23 motion for a hearing date of July 7, 2008, which would have provided less than the amount of
24 notice specified by the local rules. Dkt. 287. Acacia's improper filing was for the purpose of
25 securing a hearing date prior to the date on which defendants' motions would be filed, in yet
26 another attempt to preclude the Court from considering defendants' arguments. *See* Dkt. 304 at 3.
27 The Court *sua sponte* rejected Acacia's attempt to short-circuit the briefing schedule set out by the
28

1 local rules, and ordered hearings on all summary judgment motions for October 29, 2008. Dkt.
2 312 at 4 (Oct. 9, 2008).¹²

3 **III. APPLICABLE LAW**

4 35 U.S.C. § 285 provides that “[t]he court in exceptional cases may award reasonable
5 attorney fees to the prevailing party.” *See generally Nilssen v. Osram Sylvania, Inc.*, 528 F.3d
6 1352, 1357 (Fed. Cir. 2008). This provision is an exception to the so-called “American Rule”:

7 Under the American Rule each party bears its own attorney fees and
8 expenses. As an exception to that rule, courts have exercised their
9 inherent equitable power to make whole a party injured by an
10 egregious abuse of the judicial process. . . . Congress enacted
11 Section 285 to codify in patent cases the “bad faith” equitable
exception to the American Rule. . . . Recognizing the good
faith/bad faith distinction, Congress expressly limited such awards
to “exceptional cases.”

12 *Sun-Tek Indus., Inc. v. Kennedy Sky Lites, Inc.*, 929 F.2d 676, 678 (Fed. Cir. 1991) (internal
13 quotation and citations omitted). “The determination of whether a case is exceptional and, thus,
14 eligible for an award of attorney fees under § 285 is a two-step process. First, the district court
15 must determine whether a case is exceptional, a factual determination reviewed for clear error.
16 After determining that a case is exceptional, the district court must determine whether attorney
17 fees are appropriate, a determination [which is reviewed] for an abuse of discretion.” *Cybor Corp.*
18 *v. FAS Techs., Inc.*, 138 F.3d 1448, 1460 (Fed. Cir. 1998) (*en banc*) (citations omitted). “[T]he
19 exceptional nature of the case must be established by clear and convincing evidence.” *Cambridge*
20 *Prods., Ltd. v. Penn Nutrients, Inc.*, 962 F.2d 1048, 1050 (Fed. Cir. 1992). While an award of
21 fees is discretionary, “[i]t is the judicial duty to refuse to condone behavior that exceeds
22 reasonable litigation tactics.” *Sensonics, Inc. v. Aerosonic Corp.*, 81 F.3d 1566, 1575 (Fed. Cir.
23 1996) (remanding for findings of fact regarding exceptionality).

24
25
26 ¹² Defendants explained that Acacia’s limited summary judgment motion would not have
27 presented the Federal Circuit with the complete invalidity consequences of the Court’s claim
28 construction rulings, and that addressing only some of those consequences on appeal could
ultimately prolong, rather than shorten, this litigation.

Findings of “exceptional case” have been based on a variety of factors: “Among the types of conduct which can form a basis for finding a case exceptional are willful infringement, inequitable conduct before the P.T.O., misconduct during litigation, vexatious or unjustified litigation, and frivolous suit.” *Hoffmann-La Roche, Inc. v. Invamed, Inc.*, 213 F.3d 1359, 1365 (Fed. Cir. 2000) (quoting *Beckman Instruments, Inc. v. LKB Produkter AB*, 892 F.2d 1547, 1551 (Fed. Cir. 1989)); *see also Multiform Desiccants, Inc. v. Medzam, Ltd.*, 133 F.3d 1473, 1481-82 (Fed. Cir. 1998) (“Findings of exceptional case have been based on a variety of factors; for example, willful or intentional infringement, inequitable conduct before the Patent and Trademark Office, vexatious or unjustified litigation, or other misfeasant behavior.”); *see generally Wedgetail, Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1304-06 (Fed. Cir. 2009) (collecting cases).

A final determination of inequitable conduct is not prerequisite to an award of fees under § 285 to a prevailing alleged infringer, but is simply one basis for doing so: “Attorney fees may be warranted for litigation misconduct *or* if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” *ICU Med., Inc. v. Alaris Med. Sys., Inc.*, 558 F.3d 1368, 1379 (Fed. Cir. 2009) (emphasis added, quotation omitted); *see also Sensonics*, 81 F.3d at 1574 (“Litigation misconduct and unprofessional behavior are relevant to the award of attorney fees, and may suffice to make a case exceptional under § 285.”). A “multiplicity” of acts can support a finding of exceptionality, even where the same conclusion might not be reached if the bad acts were considered individually. *Nilssen*, 528 F.3d at 1359; *see also Beckman*, 892 F.2d at 1552-53 (affirming award of fees “based on a *strategy* of vexatious activity” and remanding for award of “the portion of its attorney fees which related to the vexatious litigation strategy and other misconduct”) (emphasis in original).

IV. ARGUMENT

The unnecessarily long and protracted litigation, Acacia’s misuse of the judicial process, and the decisive ruling in favor of defendants even before conclusion of the claim construction process, demonstrate that this is an “exceptional case.” Acacia’s combination of repeated position-shifting as to claim construction, strategic claim-dropping to avoid entry of judgment,

1 and manipulation of the summary judgment process have abused the process in a manner
2 equivalent to circumstances the Federal Circuit has determined to constitute an “exceptional
3 case.” Taken as a whole, the years of expensive litigation that Acacia has imposed on defendants
4 indicate that Acacia’s assertion of these patents and its litigation strategy was not in good faith.

5 Although the Court had already indicated that numerous claims were likely invalid as
6 indefinite, Acacia disregarded the Court’s order regarding the filing of new cases in the Central
7 District of California and sued two entire industries, naming as defendants virtually all of the
8 nation’s cable and satellite television providers. Even putting aside the considerable problems
9 with the patents on the prior art and inequitable conduct side, Acacia’s expansion of this case
10 occurred *after* the Court indicated that many of the claims were indefinite. The *Markman I* Order
11 issued on July 12, 2004. Most of the Round Two cases were not filed until September 2004
12 (except for N.D. Cal. 04-CV-02308, filed June 14, 2004, well after the *Markman I* briefing and
13 hearings) and the Round Three cases were not filed until April 2005. By the time Acacia filed the
14 Round Two and Round Three actions, its case was already collapsing. In filing these additional
15 cases in stages, Acacia successfully delayed the inevitable, at great expense to all the defendants.

16 Moreover, Acacia’s tactics were not limited to imposing huge costs on the Court and the
17 parties. When Acacia received adverse claim construction rulings, its reaction was to blame the
18 Court’s allegedly improper use of the technical advisor. Although there was never a shred of
19 evidence that the Court used the advisor improperly, Acacia ignored its own acquiescence to both
20 the advisor and the terms of his appointment, and accused the Court of improper behavior. As
21 described above, the Court’s appointment and use of Mr. Schulz were indisputably proper under
22 Ninth Circuit law, and Acacia had no legitimate basis for its accusations.

23 The failure to disclose the Sarnoff report and the references cited therein presents a strong
24 case of inequitable conduct. Under the duty of candor and good faith owed by all patent
25 applicants and their attorneys to the PTO, the Sarnoff report and the references cited therein
26 constituted highly material information that should have been disclosed during prosecution.
27 Given the high degree of materiality and the fact that the applicants *requested* the Sarnoff report
28 but then failed to disclose its adverse results or the additional prior art references cited therein,

1 intent to deceive can be inferred. Material information includes, but is not limited to, that which
 2 “a reasonable examiner would have considered such prior art important in deciding whether to
 3 allow the parent application.” *Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1314
 4 (Fed. Cir. 2006) (citation omitted). Importantly, “[i]nformation concealed from the PTO may be
 5 material *even though it would not invalidate the patent.*” *Larson Mfg. Co. v. Aluminart Prods.,*
 6 *Ltd.*, 559 F.3d 1317, 1327 (Fed. Cir. 2009) (quoting *Li Second Family Ltd. v. Toshiba Corp.*, 231
 7 F.3d 1373, 1380 (Fed. Cir. 2000)) (emphasis added). The withholding of material information
 8 “with an intent to deceive or mislead the PTO[] constitutes inequitable conduct,” and when proven
 9 by clear and convincing evidence “renders the patent unenforceable.” *Bristol-Myers Squibb Co. v.*
 10 *Rhone-Poulenc Rorer, Inc.*, 326 F.3d 1226, 1233-34 (Fed. Cir. 2003). No direct evidence is
 11 required to prove intent, which “may be inferred when a patent applicant knew, or should have
 12 known, that withheld information could be material to the PTO’s consideration of the patent
 13 application.” *Id.* at 1239 (citing *Brasseler, U.S.A. I., L.P. v. Stryker Sales Corp.*, 267 F.3d 1370,
 14 1375-76 (Fed. Cir. 2001)). This is a sliding scale: the higher the materiality, the lower the level
 15 of intent necessary to establish inequitable conduct. *See Pharmacia Corp. v. Par Pharm., Inc.*,
 16 417 F.3d 1369, 1373 (Fed. Cir. 2005). Indeed, “[p]roof of high materiality and that the applicant
 17 knew or should have known of that materiality makes it difficult to show good faith to overcome
 18 an inference of intent to mislead.” *Id.* (quoting *Semiconductor Energy Lab. Co. v. Samsung Elecs.*
 19 *Co.*, 204 F.3d 1368, 1375 (Fed. Cir. 2000)); *accord Dippin’ Dots, Inc. v. Mosey*, 476 F.3d 1337,
 20 1346 (Fed. Cir. 2007) (“relatively weak” evidence of intent may be paired with “strong”
 21 materiality to find inequitable conduct).

22 Although perhaps not itself prior art, the Sarnoff reference raised serious questions about
 23 the viability of the parent application for all the patents in suit, which a reasonable examiner
 24 would have wanted to consider with respect to at least enablement and written description.
 25 *Accord Bristol-Myers Squibb*, 326 F.3d at 1234-35 (non-prior art article by inventors raising
 26 doubts about efficacy of certain chemical processes within the scope of the claimed invention
 27 would have been important to a reasonable examiner’s consideration of enablement and was thus
 28 material). Plus, the many references cited by the Sarnoff report, especially the Gelman article,

1 were prior art that would have been important to the examiner and may have been sufficient,
2 whether alone or in combination, to invalidate the claims.

3 As to intent, the applicants indisputably knew about the Sarnoff report and the references it
4 cited. It was highly material to validity, both as to prior art and enablement. It would be “difficult
5 to show good faith to overcome an inference of intent to mislead” in these circumstances.

6 While this Court has not yet had the opportunity to rule on inequitable conduct, the Court
7 should consider these facts, as it would discovery misconduct or other bad acts, in weighing the
8 present motion as they contribute to Acacia’s conduct in pursuing this litigation. Taken as a
9 whole, these issues strongly suggest that Acacia filed this suit against the cable and satellite
10 defendants with patents that the Court had *already* determined to be vulnerable, in an effort to
11 leverage the costs of litigation and discovery into lucrative settlements.¹³ Because the Round Two
12 and Three defendants are comparatively larger (by size, sales, type of accused products, etc.) than
13 the Round One defendants, Acacia had little to lose but potentially much to gain from suing the
14 additional defendants.

15 Acacia’s tactics justify an award of fees under the Federal Circuit’s case law. In *Nilssen*,
16 the Federal Circuit affirmed a district court’s finding that the patentee’s inequitable conduct, the
17 frivolity of the lawsuit, and the patentee’s litigation misconduct justified an award of fees. *See*
18 528 F.3d at 1356, 1361. On appeal, the patentee urged the court to consider its withdrawal of
19 patents near trial, its late production of documents, its intransigence in deposition scheduling, and
20 its disavowal of interrogatory responses “as either harmless oversight of legal formalities or
21 permissibly rough litigation tactics.” *Id.* at 1358-59. The court refused to accept these
22 justifications: “The dissent picks through the various flaws in the conduct of the patentee to argue
23 that they do not individually justify the exceptional label placed on the case by the district court
24 judge. *Their multiplicity, however, indicates in part why the district judge ruled as he did.*” *Id.* at
25 1359 (emphasis added). The court likewise rejected the patentee’s argument that its inequitable

26 ¹³ Acacia has moved to commence expensive and time-consuming discovery, though each
27 time the Court has appropriately determined that the claim construction process and the
28 associated narrowing of the case, should be completed first. *See, e.g.,* Dkt. 139 at 3-5.

conduct was “benign.” *Id.* at 1358. Of course, the present case never even made it to discovery, much less to trial, because of the weakness of Acacia’s claims. But as in *Nilssen*, the “multiplicity” of Acacia’s actions that dramatically increased the cost and length of this litigation, namely its filings against additional defendants *despite* the Court’s adverse *Markman* I constructions casting extreme doubt on the viability of Acacia’s claims, its ever-shifting positions on claim construction, its non-compliance with Court orders, and its baseless objections to the technical advisor, similarly are beyond the pale of “permissibly rough litigation tactics.” And while there has been no hearing on inequitable conduct, Acacia’s assertion of claims in spite of its nondisclosure of the Sarnoff report and the references cited therein to the PTO, likewise supports the frivolity and needless waste of this litigation, further justifying a fees award.

The present case is in many ways an invalidity/claim construction version of *E-Pass Techs., Inc. v. 3com Corp.*, in which Judge Jensen awarded fees to various defendants after six years of litigation culminating in summary judgment of non-infringement. No. C-00-2255-DLJ, 2006 U.S. Dist. LEXIS 98257 (N.D. Cal. Nov. 21, 2006), *aff’d without opinion*, 316 Fed. Appx. 994 (Fed. Cir. 2009):

Reviewing the entire history of the litigation, it is clear to this Court that E-Pass’s strategy was to delay and obfuscate in an attempt to keep the case alive as long as possible and to stave off summary judgment. The Court need not cite to each example where E-Pass altered its theory of the case about whether a particular defendant had engaged in direct, contributory or induced infringement; or added or subtracted a particular device in issue; or requested discovery and then never took it and then represented that they never needed it, but based on its knowledge of the discovery history of these cases the Court finds that E-Pass engaged in a strategy of unwarranted delay and obstructive conduct.

Id. at *50-*51. As in *E-Pass*, Acacia has taken a “shifting sands” approach to its theories on the case, radically changing its claim constructions and serially dropping claims to avoid judgment when the going got tough, declining to submit expert testimony but then doing so with no notice to defendants or leave of the Court and faulting defendants for not having done so, blaming the Court’s appointment of Mr. Schulz for adverse claim constructions, and all the rest. Like the

1 plaintiff in *E-Pass*, Acacia has “engaged in a strategy of unwarranted delay and obstructive
2 conduct,” justifying an award of fees.

3 **V. CONCLUSION**

4 For all of these reasons, this case is “exceptional” within the meaning of 35 U.S.C. § 285
5 and the Court should exercise its discretion to award EchoStar its reasonable attorneys fees and
6 costs. EchoStar therefore requests that the Court determine this case is “exceptional,” that
7 EchoStar is entitled to its fees and that an appropriate award of fees is \$3,005,738.83, as set forth
8 in the declaration of Matthew I. Kreeger. *See* Declaration of Matthew I. Kreeger in Support of
9 EchoStar’s Motion re Exceptional Case, submitted herewith. EchoStar will make the invoices
10 sent to EchoStar available to the Court for an in camera review, if the Court so requests.

11 Respectfully submitted,

12 Dated: January 4, 2010

MORRISON & FOERSTER LLP

13 By: /s/ Rachel Krevans

14 Rachel Krevans

15 Rachel Krevans
16 Matthew I. Kreeger
17 Jason A. Crotty

18 Attorneys for Defendants
19 ECHOSTAR SATELLITE LLC and
20 ECHOSTAR TECHNOLOGIES CORP.
21
22
23
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25
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27
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